
**Insurance, Financial Services &
Consumer Protection Committee**

HB 3221

Brief Description: Establishing the financial services intermediary.

Sponsors: Representatives Santos, Darneille and Kenney.

Brief Summary of Bill

- Establishes the Financial Services Intermediary in the Department of Financial Institutions to improve the ability of low-income individuals to access and use mainstream financial products offered by financial institutions.

Hearing Date: 1/31/08

Staff: Alison Hellberg (786-7152).

Background:

Various state, local, and nonprofit agencies and programs are involved in activities related to financial literacy and asset accumulation.

The Department of Financial Institutions (DFI) regulates and examines various state-chartered financial services. The DFI also educates and provides outreach to protect consumers from financial fraud.

The Department of Community, Trade, and Economic Development (CTED) provides assistance to Washington's communities, businesses and families. The CTED is organized into several different divisions, one of which is the Community Services Division. Asset development is one of the programs within the Community Services Division. While asset development includes many different approaches, programs within the CTED include Individual Development Accounts (IDAs) and the Earned Income Tax Credit (EITC).

IDAs are dedicated savings accounts that help low-income families save money to pay for job training or education, buy a home or start their own business. Saving is encouraged through a

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match by government or nonprofit organizations. The Savings, Earning and Enabling Dreams (SEED) Act, enacted in 2005, authorized the CTED to create an IDA program to facilitate the creation by sponsoring organizations of IDA accounts for low-income individuals.

The EITC is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit.

In the 2004 legislative session, the Legislature created the Financial Literacy Public-Private Partnership (FLPP) consisting of 12 to 14 members, including legislators, financial services representatives, educators and representatives from the Office of the Superintendent of Public Instruction (OSPI) and the DFI. The partnership was charged with developing a working definition of "financial literacy," identifying strategies to promote the use of financial literacy curricula in schools, serving as a resource, and seeking outcome measures to determine the effectiveness of educational efforts.

The Washington Housing Finance Commission (HFC) was created by the Legislature in 1983, but is not a state agency. It does not receive state funds, it does not lend state funds, and the state is not liable for any of the HFC's debt. The HFC acts as a financial conduit of federal funds and has the authority to issue bonds for the development of affordable housing and non-profit facilities.

Summary of Bill:

The Financial Services Intermediary (Intermediary) is established in the DFI to improve the ability of low-income individuals to access and use mainstream financial products offered by financial institutions. The Intermediary is required to:

- coordinate with financial institutions to leverage the financial resources of low-income individuals served by community-based asset building coalitions to offer mainstream financial services to those individuals;
- consult and cooperate with organizations and government agencies that are already engaged in asset building and financial literacy activities;
- enter into memoranda of agreement with community-based asset building coalitions and financial institutions who choose to participate;
- identify strategies to make more mainstream financial products available to low-income individuals; and
- perform other duties as deemed appropriate by the Intermediary.

The Director of the DFI and the Director of the CTED, or their designees, are required to convene the Intermediary that consists of the following members, or their designees:

- the Director of the DFI;
- the Director of the CTED;
- the State Treasurer;
- the Executive Director of the Washington State Investment Board;
- the Director of the Department of Revenue;
- the Executive Director of the Housing Finance Commission;
- the Executive Director of the Higher Education Coordinating Board; and
- the Executive Director of the Washington State Microenterprise Association.

The Intermediary may contract with either a person or a nonprofit entity with experience working in nonprofit programs related to asset accumulation and relationships with the financial services sector to administer the program. The Intermediary is required to report to the Legislature on its programs by November 15 each year.

Financial institutions and community-based asset building coalitions who choose to participate in the programs are required to enter into memoranda of agreement with the Intermediary. While the Intermediary may establish other requirements, the memoranda must also contain certain provisions.

For the memoranda of agreement between the Intermediary and financial institutions, the financial institutions are required to:

- offer mainstream financial products and services to low-income individuals who have IDAs;
- cooperate with and provide feedback to the financial services intermediary, community-based asset building coalitions, and other organizations and governmental agencies who currently offer financial literacy programs; and
- provide information to the financial services intermediary to assist in meeting its reporting requirements.

For the memoranda of agreement between the Intermediary and community-based asset building coalitions, the community-based asset building coalitions are required to:

- offer individual development account programs as provided for in the SEED Act;
- offer financial literacy programs, approved by the financial services intermediary; and
- provide information to the financial services intermediary to assist in meeting its reporting requirements.

Low-income individuals involved in the programs of the Intermediary must follow policies and procedures related to IDAs in the SEED Act and participate in approved financial literacy programs.

The DFI is responsible for tracking and monitoring the participation of financial institutions in the programs of the Intermediary. The Director of the DFI is directed to consider a bank's involvement in the programs when investigating and assessing the bank's performance record in meeting community credit needs.

Appropriation: None.

Fiscal Note: Requested on January 27, 2008.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.